



REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE TLOKWE CITY COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Tlokwe City Council set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Tlokwe City Council as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Restatement of corresponding figures

8. As disclosed in note 34 to the financial statements, the figures for 2012 on accumulated surplus, property plant and equipment, inventory, intangible assets, expenditure, revenue, trade receivables from non-exchange transactions and creditors have been restated as a result of errors discovered at, and for the year ended 30 June 2013.

Unauthorised, irregular and fruitless and wasteful expenditure

9. As disclosed in note 36.1 to the financial statements, unauthorised expenditure of R1 221 309 was incurred in the current year and the unauthorised expenditure in respect of prior years of R234 026 726 has not yet been dealt with in accordance with section 32 of the MFMA.
10. As disclosed in note 36.3 to the financial statements, irregular expenditure of R69 386 692 was incurred in the current year and irregular expenditure from prior years of R295 283 812 has not yet been dealt with in accordance with section 32 of the MFMA.
11. As disclosed in note 36.2 to the financial statements, fruitless and wasteful expenditure from the prior years of R1 440 793 has not yet been dealt with in accordance with section 32 of the MFMA.

Material under spending of the budget

12. As disclosed in note 44 to the financial statements, the municipality materially underspent the capital budget by R54 044 095, on various infrastructure capital expenses. As a consequence, service delivery was affected negatively.

Impairments and material losses

13. As disclosed in note 29 and 38.12 to the financial statements, impairments of R19 016 036 (2012: R26 413 517) and material losses of R20 784 490 (2012: R10 611 480) respectively were incurred as a result of significant impairment of debtors and electricity and water losses.

Additional matter

14. I draw attention to the matter below. My opinion is not modified in respect of this matter:

Unaudited supplementary annexures

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these annexures and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages XX to XX of the annual report.

18. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information (FMPPI).
19. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
20. The material findings are as follows:

Usefulness of information

21. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring consistency of targets between planning and reporting documents. A total of 57% of the reported targets are not consistent with the targets as per the approved IDP. This is due to lack of inclusion of actual specific targets as per the 2012/13 IDP and service delivery budget implementation plan (SDBIP).
22. The FMPPI requires that performance indicators be well defined and verifiable and targets be specific, measureable and time bound:
 - A total of 35% of the indicators relevant to Infrastructure and Housing and planning were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently.
 - A total of 55% of the indicators relevant to Infrastructure and Housing and planning were not verifiable in that valid processes and systems that produce the information on actual performance did not exist.
 - A total of 65% of the targets relevant to Infrastructure and Housing and planning were not specific in clearly identifying the nature and the required level of performance.
 - The required performance could not be measured for a total of 61% of the targets relevant to Infrastructure and Housing and planning

This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of information

23. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to Housing and planning objective. This was due to the fact that the institution could not provide sufficient appropriate evidence to support the information presented with respect to the development priority.

Additional matter

24. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Material adjustments to the annual performance report

25. Material audit adjustments in the annual performance report were identified during the audit, of which some were corrected by management and those that were not corrected have been reported on accordingly.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Budget

27. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
28. Monthly budget statements were not timeously submitted to the mayor and the relevant provincial treasury, as required by section 71(1) of the MFMA.

Strategic planning and performance management

29. The municipality did not give effect to its IDP and conduct its affairs in a manner which was consistent with its IDP, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
30. The municipality did not establish a performance management system, as required by section 38(a) of the MSA.
31. The municipality did not set key performance indicators, including output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
32. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulation 12(1) and 12(2)(e).
33. The annual performance report for the year under review does not include the performance of the municipality and each external service provider, a comparison of the performance with set targets and a comparison with the previous financial year, as required by section 46 (1)(a),(b) and (c) of the MSA.
34. The municipality did not have and maintain effective, efficient and transparent systems of internal control regarding performance management as required by section 62(1)(c)(i) of the MFMA.

Procurement and contract management

35. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by the Supply Chain Management (SCM), regulation 17(a) and (c).
36. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a).
37. Awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44. Similar non-compliance was reported in the prior year and the municipality did not take disciplinary action against the officials involved.
38. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for councillors and staff members issued in terms of the MSA.
39. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e) and the code of conduct for councillors and staff members issued in terms of the MSA.

40. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).

Annual financial statements and annual performance report

41. The financial statements submitted for audit were not in all material respects prepared in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

42. The accounting officer did not take effective steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.
43. Payments were made without the approval of the accounting officer or a properly authorised official as required by section 11(1) of the MFMA.

Conditional grants

44. The municipality did not timeously submit project registration forms, for projects it intends implementing in the financial year 2013/14, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.35399.
45. The municipality did not timeously submit project implementation plans to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.35399.

Consequences management

46. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the MFMA.

Human resource management

47. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).
48. Four senior managers did not have the higher education qualification as required by regulation 6 and 7 of the Municipal Regulations on Minimum Competency Levels.
49. Some finance officials at middle management did not have the higher education qualification as required by regulation 8 and 9 of the Municipal Regulations on Minimum Competency Levels.
50. Bonuses were awarded to the municipal manager and senior managers directly accountable to the municipal manager without evaluation of performance, in contravention of section 57(4)(b) MSA.

Audit committee

51. The performance audit committee did not review the municipality's performance management system and make recommendations to the council, as required by Municipal planning and performance management regulation 14(4)(a)(ii).
52. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

53. The internal audit unit did not audit the performance measurements on a continuous basis, as required by Municipal planning and performance management regulation 14(1)(c).

Waste management

54. The municipality operated its wastewater treatment facility without a license, in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
55. The municipality's operational activities at its waste disposal site and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f) and (h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.
56. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c) and (d) and 26(1)(b) of the NEMWA.

Internal control

57. I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

58. Management failed to timely appoint sufficient appropriately skilled staff in key positions within the finance, performance reporting and supply chain management units, furthermore the training and development initiatives failed to address the underlying deficiencies that caused non compliance and predetermined objective matters to be repeated in the audit report. Policies and procedures did not adequately guide performance activities and compliance with laws and regulations.

Financial and performance management

59. The municipality did not implement a proper record keeping system to ensure that complete, relevant and accurate information is accessible and available to support performance reporting and compliance with laws and regulations. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from material misstatements resulting in material corrections that had to be made during the audit.

Governance

60. Management do not have an appropriate strategy that addresses all the risk related to performance reporting and the various non compliances with laws and regulations.
61. The internal audit department was not effective during the financial year. Council and management failed to recognise the value that internal audit can add to the municipality.
62. The audit committee fulfilled its function, however the municipality did not adequately respond to the concerns raised, resulting in the internal control environment over performance reporting and compliance with laws and regulations being ineffective.

OTHER REPORTS

Investigations

63. An external firm conducted a forensic investigation during the financial year regarding allegations on the procurement processes within the municipality. As at the date of this report, the outcome on the forensic investigation on procurement and contract management is yet to be tabled to the council, who have to institute any actions as recommended by the report.

Potchefstroom

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence